

VILLAGE OF SCHOOLCRAFT, MICHIGAN

39-3040

**Annual Financial Statements
And
Auditors' Report**

February 29, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Schoolcraft	County Kalamazoo
Audit Date February 29, 2004	Opinion Date September 20, 2004	Date Accountant Report Submitted to State: November 1, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	X
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	X

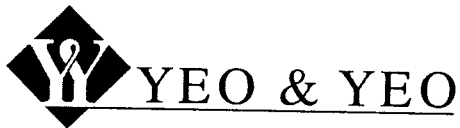
Certified Public Accountant (Firm Name) Yeo & Yeo, PC			
Street Address 710 E. Milham		City Kalamazoo	State MI
Accountant Signature <i>James D. Rembert CPA</i>		ZIP 49002	

Village of Schoolcraft, Michigan
Annual Financial Report
February 29, 2004

Loren Warfield..... President
Sharon Gilchrist Clerk
Christine Mullin Treasurer
James Van Dyken..... Trustee
Scot Dailey Trustee
Susan Prudden Trustee
Russel Barns..... Trustee
Keith Gunnett Trustee
Walter Mullin Trustee
Darrell Harden..... Village Manager

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Independent Auditors' Report

Members of the Village Council
Village of Schoolcraft, Michigan

We have audited the accompanying general-purpose financial statements of the Village of Schoolcraft, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Village of Schoolcraft, Michigan as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Schoolcraft, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
September 20, 2004

General Purpose Financial Statements

**Village of Schoolcraft
Combined Balance Sheet
All Fund Types and Account Groups
February 29, 2004**

		<u>Governmental Fund Types</u>	
		<u>General</u>	<u>Special Revenue</u>
Assets			
Cash		\$ 382,275	\$ 715,298
Receivables			
Taxes		24,935	8,994
Accounts		3,464	-
Due from other funds		88,039	45,874
Due from other governmental units		-	97,674
Fixed assets		-	-
Less accumulated depreciation		-	-
Amount to be provided for compensated absences		-	-
Total assets		<u>\$ 498,713</u>	<u>\$ 867,840</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable and accrued expenses		\$ 30,065	\$ -
Compensated absences		-	-
Due to other funds		7,600	126,313
Deferred revenue		24,937	103,404
Total liabilities		<u>62,602</u>	<u>229,717</u>
Fund equity			
Contributed capital		-	-
Investment in general fixed assets		-	-
Retained earnings		-	-
Unreserved		-	-
Fund balance		-	-
Designated		60,831	-
Unreserved		375,280	638,123
Total fund equity		<u>436,111</u>	<u>638,123</u>
Total liabilities and fund equity		<u>\$ 498,713</u>	<u>\$ 867,840</u>

See Accompanying Notes To Financial Statements

Proprietary Fund	Account Group		Totals (Memorandum Only)
Enterprise	General Fixed Assets	General Long-term Debt	
\$ 2,850	\$ -	\$ -	\$ 1,100,423
-	-	-	33,929
29,004	-	-	32,468
-	-	-	133,913
-	-	-	97,674
1,867,392	1,167,129	-	3,034,521
(542,435)	-	-	(542,435)
-	-	16,511	16,511
<u>\$ 1,356,811</u>	<u>\$ 1,167,129</u>	<u>\$ 16,511</u>	<u>\$ 3,907,004</u>

\$ 5,912	\$ -	\$ -	\$ 35,977
-	-	16,511	16,511
-	-	-	133,913
-	-	-	128,341
<u>5,912</u>	<u>-</u>	<u>16,511</u>	<u>314,742</u>
326,884	-	-	326,884
-	1,167,129	-	1,167,129
1,024,015	-	-	1,024,015
-	-	-	60,831
-	-	-	1,013,403
<u>1,350,899</u>	<u>1,167,129</u>	<u>-</u>	<u>3,592,262</u>
<u>\$ 1,356,811</u>	<u>\$ 1,167,129</u>	<u>\$ 16,511</u>	<u>\$ 3,907,004</u>

See Accompanying Notes To Financial Statements

Village of Schoolcraft
Combined Statement of Revenues, Expenditures and Changes
In Fund Balances - All Governmental Fund Types
For The Year Ended February 29, 2004

	General	Special Revenue	Totals (Memorandum Only)
Revenues			
Taxes	\$ 382,295	\$ 106,476	\$ 488,771
State grants	176,311	30,651	206,962
Charges for services	35,704	-	35,704
Fines and forfeits	-	11,070	11,070
Interest and rents	34,096	3,406	37,502
Other	9,601	10,165	19,766
Total revenues	<u>653,082</u>	<u>161,768</u>	<u>814,850</u>
Expenditures			
Legislative	57,660	-	57,660
General government	118,848	-	118,848
Public safety	267,017	-	267,017
Public works	203,934	129,717	333,651
Recreation and culture	33,496	103,746	137,242
Total expenditures	<u>680,955</u>	<u>233,463</u>	<u>914,418</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>(27,873)</u>	<u>(71,695)</u>	<u>(99,568)</u>
Other financing sources (uses)			
Operating transfers in (out)	<u>(346,152)</u>	<u>-</u>	<u>(346,152)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>(374,025)</u>	<u>(71,695)</u>	<u>(445,720)</u>
Fund balance - beginning of year	863,647	681,638	1,545,285
Prior period adjustment	<u>(53,511)</u>	<u>28,180</u>	<u>(25,331)</u>
Fund balance - beginning of year as restated	<u>810,136</u>	<u>709,818</u>	<u>1,519,954</u>
Fund balance - end of year	<u>\$ 436,111</u>	<u>\$ 638,123</u>	<u>\$ 1,074,234</u>

See Accompanying Notes To Financial Statements

Village of Schoolcraft
Combined Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual - General and Special Revenue Funds
For The Year Ended February 29, 2004

	General Fund		
	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Taxes	\$ 386,175	\$ 382,295	\$ (3,880)
Licenses and permits	6,000	15,075	9,075
State revenue	161,339	176,311	14,972
Charges for services	30,000	35,704	5,704
Fines and forfeits	-	-	-
Interest	80,667	34,096	(46,571)
Other	6,620	9,601	2,981
Total revenues	<u>670,801</u>	<u>653,082</u>	<u>(17,719)</u>
Expenditures			
Legislative	57,670	57,660	10
General government	107,235	118,848	(11,613)
Public safety	275,636	267,017	8,619
Public works	195,690	203,934	(8,244)
Recreation and culture	34,569	33,496	1,073
Total expenditures	<u>670,801</u>	<u>680,955</u>	<u>(10,154)</u>
Excess of revenues over expenditures before other financing sources (uses)	<u>-</u>	<u>(27,873)</u>	<u>(27,873)</u>
Other financing sources (uses)			
Non-operating transfers in (out)	<u>-</u>	<u>(346,152)</u>	<u>(346,152)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>-</u>	<u>(374,025)</u>	<u>(374,025)</u>
Fund balance - beginning of year	863,647	863,647	-
Prior period adjustment	<u>-</u>	<u>(53,511)</u>	<u>(53,511)</u>
Fund balance - beginning of year, as restated	<u>863,647</u>	<u>810,136</u>	<u>(53,511)</u>
Fund balance - end of year	<u>\$ 863,647</u>	<u>\$ 436,111</u>	<u>\$ (427,536)</u>

See Accompanying Notes To Financial Statements

Special Revenue Funds

<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
\$ 118,890	\$ 106,476	\$ (12,414)
-	-	-
121,615	30,651	(90,964)
-	-	-
11,070	11,070	0
9,807	3,406	(6,401)
5,773	10,165	4,392
<u>267,156</u>	<u>161,768</u>	<u>(105,388)</u>
-	-	-
-	-	-
-	-	-
128,500	129,717	(1,217)
104,749	103,746	1,003
<u>233,249</u>	<u>233,463</u>	<u>(214)</u>
<u>33,906</u>	<u>(71,695)</u>	<u>(105,601)</u>
-	-	-
<u>33,906</u>	<u>(71,695)</u>	<u>(105,601)</u>
681,638	681,638	-
-	28,180	28,180
<u>681,638</u>	<u>709,818</u>	<u>28,180</u>
<u>\$ 715,544</u>	<u>\$ 638,123</u>	<u>\$ (77,421)</u>

See Accompanying Notes To Financial Statements

Village of Schoolcraft
Combined Statement of Revenues, Expenditures and Changes
In Retained Earnings - All Proprietary Fund Types
For The Year Ended February 29, 2004

	Totals (Memorandum Only)
Operating revenues	
Water sales	\$ 135,040
Service connections	1,123
Total operating revenues	<u>136,163</u>
Operating expenses	
Salaries and wages	28,749
Benefits and taxes	3,159
Office supplies	2,042
Engineering and legal	22,544
Chemicals	2,832
Operating supplies	17,111
Heat, light, and power	4,772
Repairs and maintenance	6,574
Insurance	923
Depreciation	41,098
Telephone	440
Total operating expenses	<u>130,244</u>
Net operating income	<u>5,919</u>
Non-operating revenues (expenses)	
Property taxes	117,601
Transfers in	346,152
Interest income	240
Interest expense	(44,426)
Total non-operating revenues (expenses)	<u>419,567</u>
Net income	425,486
Add depreciation on fixed assets acquired by grants, entitlements, and shared revenue externally restricted for capital acquisitions and construction that reduces contributed capital	<u>3,033</u>
Increase in retained earnings	<u>428,519</u>
Retained earnings - beginning of year	601,054
Prior period adjustment	(5,558)
Retained earnings - beginning of year (as restated)	<u>595,496</u>
Retained earnings - end of year	<u>\$ 1,024,015</u>

See Accompanying Notes To Financial Statements

Village of Schoolcraft
Combined Statement of Cash Flows
All Proprietary Fund Types
For The Year Ended February 29, 2004

	Totals (Memorandum Only)
Cash flows from operating activities:	
Operating income (loss)	\$ 5,919
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	41,098
(Increase) decrease in:	
Accounts receivable	11,416
Increase (decrease) in:	
Accounts payable	(3,525)
Accrued expenses	3,017
Net cash provided by operating activities	<u>57,925</u>
Cash flows from capital and related financing activities	
Property tax collections	117,601
Acquisition of capital assets	(33,955)
Transfer from other fund	346,152
Principal paid on revenue bonds	(725,000)
Interest paid on revenue bonds	(44,426)
Net cash used by capital and related financing activities	<u>(339,628)</u>
Cash flows from investing activities:	
Net change in investments	283,896
Interest on investments	240
Net cash provided by investing activities	<u>284,136</u>
Net increase in cash	2,433
Cash - beginning of year	<u>417</u>
Cash - end of year	<u>\$ 2,850</u>

See Accompanying Notes To Financial Statements

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

NOTE 1 - DESCRIPTION OF VILLAGE OPERATIONS

The Village operates under an elected board of seven members. The Village provides services to its residents in many areas including public safety, highways and streets, sanitation, culture-recreation, public improvements and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Schoolcraft, Michigan conform to the accounting principles generally accepted in the United States of America as applicable to governments.

The following is a summary of the more significant policies:

A. THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Village, primary government. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Village has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in the Village's financial statements.

B. FUND ACCOUNTING

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. The various funds and account groups are grouped as follows in the financial statements.

GOVERNMENTAL FUND TYPES

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants, and other intergovernmental revenue.

Special Revenue Funds - Special Revenue Funds are used to account for revenues derived from specific sources, other than major capital projects, which are usually required by law or regulation to be accounted for in separate funds.

PROPRIETARY FUND TYPES

Enterprise Fund - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing services to the general public on a continuing basis be financed primarily through user charges.

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

ACCOUNT GROUPS

General Fixed Assets - Capital assets acquired by governmental funds ("general fixed assets") are recorded as expenditures at the time of purchase. Such assets are capitalized at cost in the General Fixed Assets Account Group except for certain improvements including roads, bridges, curbs and gutters, drainage system and street lighting system.

General Long-term Debt - This account group is used to account for all of the Village's long-term debt except that accounted for in the proprietary funds.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statement. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets, not to exceed sixty days.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

All Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled Water Fund receivables are recorded at year end.

The Village's proprietary fund has elected to follow 1) all GASB pronouncements and 2) Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Practice Bulletins (APB) opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to year end, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The budget includes proposed expenditures and means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through approval by the Village Council.

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

4. Budgets are adopted on a basis consistent with the accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Internal Service Funds. All annual appropriations lapse at fiscal year end.
5. Adoption and amendments of all budgets used by the Village are governed by Public Act 621. Any amendment to the original budget must meet the requirements of Public Act 621.

E. CASH AND INVESTMENTS

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

For purposes of the statement of cash flows, cash and cash equivalents includes all highly liquid investments purchased with a maturity of three months or less to be cash.

F. RECEIVABLES

Receivables have been recognized for all significant amounts due the Village in accordance with the accounting principles used for the particular fund. All receivables are estimated to be fully collectible as presented.

G. FIXED ASSETS

General Fixed Assets - General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the general fixed assets account group are not depreciated.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not added to the general fixed assets account group.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Proprietary Fund Fixed Assets - Fixed assets and related depreciation allowance as recorded in the proprietary funds, are based on historical cost.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

The assets are being depreciated on the straight-line method of depreciation at rates commonly accepted as reasonable measurements of the useful lives of the respective assets.

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Water Fund</u>
Buildings and improvements	50 years
Machinery and equipment	10 - 15 years
Water system	10 - 50 years

H. PROPERTY TAX REVENUE

Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, on property values assessed as of December 31 of the prior year. Therefore the total levy is recorded as revenue in the current year.

I. TOTAL COLUMNS ON COMBINED STATEMENTS - OVERVIEW

Total columns on the Combined Statements - Overview are captioned *Memorandum Only* to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

J. COMPENSATED ABSENCES

The Village of Schoolcraft provides full-time employees with vacation benefits. Vacation benefits are earned at the beginning of the calendar year and are based on years of service. Once earned, vacation time is vested. Upon separation of employment with the Village, vacation balances are paid to employees based on their current rate of pay. Any vacation balance remaining at the end of the calendar year is forfeited.

The Village also provides full-time employees with personal time benefits. Personal time (which includes sick time) is earned at the beginning of the calendar year. All full-time employees receive 80 hours personal time. Once earned, personal time is vested. Upon separation of employment, their balance is paid to the employee. Any personal time balance remaining at the end of the calendar year is paid to the employee with their first check of the next calendar year.

Accrued vacation and sick time at February 29, 2004 amounted to \$19,527. Of this amount, \$16,511 is reported in the General Long Term Debt Account Group and \$3,017 is reported as a liability in the Water Fund.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

L. FUTURE CHANGES IN ACCOUNTING STANDARDS

The Governmental Accounting Standards Board has issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This new reporting standard will impact the City's revenue and expenditure recognition; and assets, liabilities and fund equity reporting. The new standard will also require reformatting of the financial statements and restating beginning balances. The Village is required to implement the new reporting model for the fiscal year ending February 28, 2005. Due to the significance of the changes required, it is not possible to present pro-forma data prior to implementation.

NOTE 3 – CASH AND INVESTMENTS

DEPOSITS – The Village of Schoolcraft is authorized by the State of Michigan Public Act, to deposit its funds in banks, savings and loan associations, or credit unions having their principal offices in the State of Michigan.

The yearend carrying amount of the Village's deposits with financial institutions was \$1,100,423. The actual bank balances amounted to \$1,081,003. Of this amount, \$163,833 was insured by the FDIC and \$917,170 was uninsured and uncollateralized.

NOTE 4 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance <u>February 28, 2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>February 29, 2004</u>
Buildings and improvements	\$ 641,881	\$ --	\$ --	\$ 641,881
Parks	14,748	2,400	--	17,148
Public works vehicles	49,932	52,469	--	102,401
Public works equipment	142,216	--	--	142,216
Police vehicles	75,587	--	--	75,587
Police equipment	27,501	12,775	--	40,276
Office Equipment and furniture	<u>130,408</u>	<u>17,212</u>	<u>--</u>	<u>147,620</u>
	<u>\$ 1,082,273</u>	<u>\$ 84,856</u>	<u>\$ --</u>	<u>\$ 1,167,129</u>

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

NOTE 5 - PROPRIETARY FUND PROPERTY AND EQUIPMENT

A summary of proprietary fund property and equipment at February 29, 2004 is as follows:

	<u>Cost</u>	<u>Enterprise</u>	<u>Useful Lives</u>
Buildings and improvements	\$ 1,138,647		50 years
Water system	719,051		10 - 50 years
Machinery and equipment	<u>9,694</u>		10 - 15 years
	1,867,392		
Less: accumulated depreciation	<u>542,435</u>		
Net carrying amount	<u>\$ 1,324,957</u>		

Depreciation expense for the year ended February 29, 2004 was \$41,097.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of the individual funds at February 29, 2004:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 88,039	\$ 7,600
Special Revenue Funds		
Major Street	--	61,140
Local Street	45,874	42,531
Library Fund	--	22,642
Water Fund	--	--
	<u>\$ 133,913</u>	<u>\$ 133,913</u>

NOTE 7 - INTERFUND TRANSFERS

Individual fund transfers at February 29, 2004 were as follows:

General Fund - transfer out	\$ 346,152
Water Fund - transfer in	\$ 346,152

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

NOTE 8 - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Village for the year ended February 29, 2004:

	Balance March 1, <u>2003</u>	Additions (Reductions)	Balance February 29, <u>2004</u>
\$1,100,000 Village Water Supply System bonds, issue date February 11, 1992, payable in annual installments from \$25,000 to \$100,000, plus interest rates from 5.00% to 10.00%. Interest is payable semi-annually.	\$ <u>725,000</u>	\$ <u>(725,000)</u>	\$ <u> --</u>

Interest expense for the year ended February 29, 2004 was \$44,426.

NOTE 9 - BUDGETS

The Village follows the practice of adopting an annual budget for the General and Special Revenue Funds, at the fund level.

Prior to the beginning of the fiscal year, the budget is legally enacted as presented in the Combined Statements, through approval by the Village Council.

The Village Manager is authorized to transfer budgeted amounts between departments within any fund, however, any revisions that alter the total expenditures of any fund must be approved by the Village Council. Presented budgets are as originally adopted or amended by the Village Council.

Appropriations lapse at yearend.

Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Schoolcraft because it is at present considered not necessary to assure effective budgetary control, or to facilitate effective cash planning and control.

Significant expenditure budget overruns were as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL FUND			
General government	\$ 107,235	\$ 118,847	\$ (11,612)
Public Works	195,690	203,931	(8,241)
Non-operating transfers out	--	346,152	(346,152)

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

NOTE 10 – DEFINED CONTRIBUTION

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of their current compensation until the employee terminates employment wages to the plan, but total contributions for each employee (and interest allocated to the employee's account) are immediately 100% vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$4,702 and \$14,197 respectively, for the fiscal year 2003/2004 for a total of \$18,899.

NOTE 11 - SEGMENT INFORMATION

Segment information of the Enterprise Fund is provided as follows for the Water Fund for the year ended February 29, 2004:

Net working capital	\$ <u>(320,210)</u>
---------------------	---------------------

NOTE 12 – CONTRIBUTED CAPITAL

During the year, contributed capital decreased in the following amounts:

	<u>Water Fund</u>
Contributed capital – March 1, 2003	\$ 329,916
Depreciation expense attributable to contributed capital	<u>3,032</u>
Contributed capital – February 29, 2004	\$ <u>326,884</u>

NOTE 13 – DESIGNATED FUND BALANCE

The general fund has designated \$60,831 of its fund balance for future investments in general fixed assets. The designated fund balance is made up of the following designations:

Police equipment	\$ 7,000
Parks	1,500
Drug enforcement	3,294
Buildings and land	23,044
Krum Recreation Center	<u>25,993</u>
	\$ <u>60,831</u>

Village of Schoolcraft, Michigan
Notes to Financial Statements
February 29, 2004

NOTE 14 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omission, employees' injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation, death and disability, hospitalization and life claims, and participates in the Michigan Municipal League risk pool for claims relating to liability, fire, fleet, and bonds. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 15 – JOINT VENTURES

The Village is a member of the South Kalamazoo County Fire Authority. The Authority was established to jointly provide fire protection services within the member municipalities in southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. During the current year, the Village contributed \$34,191 for its operation. The Village also rents the fire hall to the Authority. Rental income totaled \$5,000 for the year ended February 29, 2004.

The South Kalamazoo County Fire Authority receives an annual audit of its financial statements by an independent certified public accountant. A copy of the annual audit is kept on file at the Village of Schoolcraft office, and can be reviewed upon request.

NOTE 16 – CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended February 29, 2004 is as follows:

Carryover deficit from prior year	\$ (2,093)
Permit revenue	9,204
Permit expenditures	<u>(8,149)</u>
Deficiency of revenue over expenditures	\$ <u>(1,038)</u>

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

	<u>General Fund</u>	<u>Library Fund</u>	<u>Water Fund</u>
Tax revenue reported in wrong period	\$ (16,999)	\$ 28,180	\$ (5,558)
Erroneous 2/28/03 cash reconciling items	(26,894)	--	--
Cash in lieu of health insurance reported in wrong period	<u>(9,618)</u>	<u>--</u>	<u>--</u>
	\$ <u>(53,511)</u>	\$ <u>28,180</u>	\$ <u>(5,558)</u>

Supplemental Financial Information

General Fund

Village of Schoolcraft
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Year Ended February 29, 2004

	<u>Actual</u>
Revenues	
Taxes	\$ 382,295
Licenses and permits	15,075
State grants	176,311
Charges for services	35,704
Interest and rents	34,096
Miscellaneous	9,601
Total revenues	<u>653,082</u>
Expenditures	
Legislative - Village council	57,660
General government	118,848
Public safety	267,017
Public works	203,934
Recreational and cultural	33,496
Total expenditures	<u>680,955</u>
Excess revenues over expenditures before other financing uses	(27,873)
Other financing uses	
Non-operating transfers out	<u>(346,152)</u>
Excess of revenues over expenditures and other financing uses	<u>(374,025)</u>
Fund balance - beginning of year	863,647
Prior period adjustment	<u>(53,511)</u>
Fund balance - beginning of year as restated	<u>810,136</u>
Fund balance - end of year	<u><u>\$ 436,111</u></u>

Village of Schoolcraft
General Fund
Statement of Revenues - Budget and Actual
For The Year Ended February 29, 2004

Revenues	Budget	Actual	Variance - Favorable (Unfavorable)
Taxes			
Property taxes	\$ 381,230	\$ 376,699	\$ 4,531
Tax collection fee	4,945	5,596	(651)
Total taxes	<u>386,175</u>	<u>382,295</u>	<u>3,880</u>
Licenses and permits			
Building and zoning permits	-	9,204	(9,204)
Franchise fees	6,000	5,871	129
Total licenses and permits	<u>6,000</u>	<u>15,075</u>	<u>(9,075)</u>
State grants			
State shared revenue	160,739	168,302	(7,563)
Other state grants	200	6,500	(6,300)
Liquor license fees	-	1,509	(1,509)
Police training fund	400	-	400
Total state grants	<u>161,339</u>	<u>176,311</u>	<u>(14,972)</u>
Charges for services			
Fines and forfeitures - district court fees	18,800	20,595	(1,795)
Krum Community Center charges	11,200	15,109	(3,909)
Total charges for services	<u>30,000</u>	<u>35,704</u>	<u>(5,704)</u>
Interest and rents			
Interest	15,100	5,896	9,204
Fire station rent	6,000	5,000	1,000
Equipment rental	59,567	23,200	36,367
Total interest and rents	<u>80,667</u>	<u>34,096</u>	<u>46,571</u>
Miscellaneous			
Other	6,620	9,601	(2,981)
Total miscellaneous	<u>6,620</u>	<u>9,601</u>	<u>(2,981)</u>
Total revenues	<u>\$ 670,801</u>	<u>\$ 653,082</u>	<u>\$ 17,719</u>

Village of Schoolcraft
General Fund
Statement of Expenditures - Budget and Actual
For The Year Ended February 29, 2004

Expenditures	Budget	Actual	Variance - Favorable (Unfavorable)
Legislative - Village council	\$ 57,670	\$ 57,660	\$ 10
General government			
Manager	40,838	53,879	(13,041)
Village clerk	6,523	6,301	222
Village treasurer	9,619	9,897	(278)
Village halls and grounds	50,255	48,771	1,484
Total general government	<u>107,235</u>	<u>118,848</u>	<u>(11,613)</u>
Public safety			
Building inspection	-	8,149	(8,149)
Police	242,636	224,677	17,959
Fire protection	33,000	34,191	(1,191)
Total public safety	<u>275,636</u>	<u>267,017</u>	<u>8,619</u>
Public works			
Landfill	12,000	10,018	1,982
Public works	101,963	114,476	(12,513)
Equipment	81,728	79,440	2,288
Total public works	<u>195,690</u>	<u>203,934</u>	<u>(8,244)</u>
Recreation and cultural			
Parks and recreation	15,417	11,080	4,337
Community Center	3,749	3,341	408
Krum Recreation Center	15,404	19,075	(3,671)
Total recreational and cultural	<u>34,569</u>	<u>33,496</u>	<u>1,073</u>
 Total expenditures	 <u>\$ 670,801</u>	 <u>\$ 680,955</u>	 <u>\$ (10,154)</u>

Special Revenue Funds

**Village of Schoolcraft
Special Revenue Funds
Combining Balance Sheet
February 29, 2004**

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Library</u>	<u>Totals</u>
Assets				
Cash	\$ 462,531	\$ 62,214	\$ 190,553	\$ 715,298
Taxes receivable	-	-	8,994	8,994
Due from State of Michigan	74,284	23,390	-	97,674
Due from other funds	-	45,874	-	45,874
Total assets	<u>\$ 536,815</u>	<u>\$ 131,478</u>	<u>\$ 199,547</u>	<u>\$ 867,840</u>
Liabilities and Fund Balance				
Liabilities				
Due to other funds	\$ 61,141	\$ 42,530	\$ 22,642	\$ 126,313
Deferred revenue	74,284	23,390	5,730	103,404
Total liabilities	135,425	65,920	28,372	229,717
Fund balance				
Unreserved	401,390	65,558	171,175	638,123
Total liabilities and fund balance	<u>\$ 536,815</u>	<u>\$ 131,478</u>	<u>\$ 199,547</u>	<u>\$ 867,840</u>

Village of Schoolcraft
Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For The Year Ended February 29, 2004

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Library Fund</u>	<u>Totals</u>
Revenues				
State shared revenue	\$ 22,857	\$ 7,179	\$ 615	\$ 30,651
Property tax revenue	-	-	106,476	106,476
Fines and forfeits	-	-	11,070	11,070
Interest	1,722	886	798	3,406
Miscellaneous	-	-	10,165	10,165
Total revenues	<u>24,579</u>	<u>8,065</u>	<u>129,124</u>	<u>161,768</u>
Expenditures				
Public works	68,951	60,766	-	129,717
Recreation and culture	-	-	103,746	103,746
Total expenditures	<u>68,951</u>	<u>60,766</u>	<u>103,746</u>	<u>233,463</u>
Excess (deficiency) of revenues over expenditures	<u>(44,372)</u>	<u>(52,701)</u>	<u>25,378</u>	<u>(71,695)</u>
Fund balances - beginning of year	445,762	118,259	117,617	681,638
Prior period adjustment	-	-	28,180	28,180
Fund balances - beginning of year (as restated)	<u>445,762</u>	<u>118,259</u>	<u>145,797</u>	<u>709,818</u>
Fund balances - end of year	<u>\$ 401,390</u>	<u>\$ 65,558</u>	<u>\$ 171,175</u>	<u>\$ 638,123</u>

Major Street Fund

Village of Schoolcraft
Major Street Fund
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For The Year Ended February 29, 2004

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
State grants	\$ 92,000	\$ 22,857	\$ (69,143)
Interest	6,000	1,722	(4,278)
Total revenues	<u>98,000</u>	<u>24,579</u>	<u>(73,421)</u>
Expenditures			
Public works			
Administrative	15,302	8,678	6,624
Routine maintenance	43,135	5,165	37,970
Winter maintenance	7,790	3,938	3,852
Traffic control	4,773	9,455	(4,682)
Construction	5,000	41,715	(36,715)
Total expenditures	<u>76,000</u>	<u>68,951</u>	<u>7,049</u>
Excess (deficiency) of revenues over expenditures	22,000	(44,372)	(66,372)
Other financing sources (uses)			
Operating transfers in (out)	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>(44,372)</u>	<u>(44,372)</u>
Fund balance - beginning of year	<u>445,762</u>	<u>445,762</u>	<u>-</u>
Fund balance - end of year	<u>\$ 445,762</u>	<u>\$ 401,390</u>	<u>\$ (44,372)</u>

Local Street Fund

Village of Schoolcraft
Local Street Fund
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For The Year Ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Revenues			
State grants	\$ 29,000	\$ 7,179	\$ (21,821)
Interest	<u>1,500</u>	<u>886</u>	<u>(614)</u>
Total revenues	<u>30,500</u>	<u>8,065</u>	<u>(22,435)</u>
Expenditures			
Public works			
Administrative	13,925	28,972	(15,047)
Routine maintenance	24,650	2,298	22,352
Winter maintenance	7,252	3,026	4,226
Traffic control	4,673	9,298	(4,625)
Construction	<u>2,000</u>	<u>17,172</u>	<u>(15,172)</u>
Total expenditures	<u>52,500</u>	<u>60,766</u>	<u>(8,266)</u>
Excess (deficiency) of revenues over expenditures	(22,000)	(52,701)	(30,701)
Other financing sources (uses)			
Operating transfers in (out)	<u>22,000</u>	<u>-</u>	<u>(22,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>(52,701)</u>	<u>(52,701)</u>
Fund balance - beginning of year	<u>118,259</u>	<u>118,259</u>	<u>-</u>
Fund balance - end of year	<u>\$ 118,259</u>	<u>\$ 65,558</u>	<u>\$ (52,701)</u>

Library Fund

Village of Schoolcraft
Library Fund
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For The Year Ended February 29, 2004

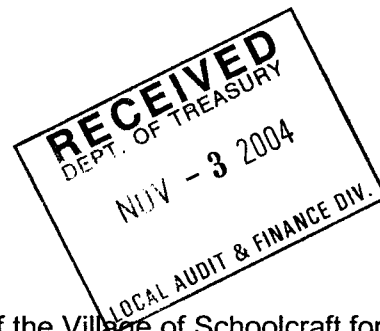
	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Property taxes	\$ 118,890	\$ 106,476	\$ (12,414)
State grants	615	615	-
Contributions	2,606	5,210	2,604
Charges for services	1,540	1,540	-
Fines and forfeits	11,070	11,070	-
Interest	2,307	798	(1,509)
Other	1,628	3,415	1,787
Total revenues	<u>138,656</u>	<u>129,124</u>	<u>(9,532)</u>
Expenditures			
Recreation and culture			
Salaries and wages	57,631	55,562	2,069
Payroll taxes and benefits	12,095	11,534	561
Supplies	3,327	3,638	(311)
Telephone and internet	2,713	2,713	-
Audio/visual	2,340	2,340	-
Building maintenance and utilities	2,742	2,742	-
Books, magazines and periodicals	13,981	13,981	-
Memberships and dues	759	799	(40)
Copier	1,330	1,330	-
Insurance	958	958	-
Professional services	3,761	3,761	-
Conferences, meetings and travel	1,305	1,357	(52)
Capital outlay	1,329	1,329	-
Miscellaneous	479	1,702	(1,223)
Total expenditures	<u>104,750</u>	<u>103,746</u>	<u>1,004</u>
Excess of revenues over expenditures	<u>33,906</u>	<u>25,378</u>	<u>(8,528)</u>
Fund balance - beginning of year	117,617	117,617	-
Prior period adjustment	-	28,180	28,180
Fund balance - beginning of year as restated	<u>117,617</u>	<u>145,797</u>	<u>28,180</u>
Fund balance - end of year	<u>\$ 151,523</u>	<u>\$ 171,175</u>	<u>\$ 19,652</u>



September 20, 2004

Members of the Village Council
Village of Schoolcraft, Michigan

Council Members:



In planning and performing our audit of the financial statements of the Village of Schoolcraft for the year ended February 28, 2004, we considered the Village's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Reconciliation Procedures and Adjustment of Financial Statements

Information and records necessary to complete the year end audit required numerous adjusting entries. Bank accounts were not reconciled in a timely matter. Balance sheet accounts were not properly reconciled throughout the year and were not adjusted to the appropriate balances at year end. Individual funds and corresponding inter-fund receivables and payables were not in balance. As a result, considerable time had to be spent reconciling these balances which in turn prolonged our fieldwork and delayed issuance of the report.

Suggestion: We recommend that all cash and investment accounts be reconciled monthly. All other balance sheet accounts should be reconciled annually at a minimum. All reconciliations and supporting documentation should be reviewed by the Village Manager or by the Village Treasurer and kept for future review by the Village's auditor.

Segregation of Duties

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

Suggestion: We suggest that unopened bank statements be directed to a person independent of the accounting functions. This person should examine the bank statement and all canceled check images for reasonableness. Also, once the bank statements have been reconciled to the financial records, the reconciliations should be reviewed by this same independent person for reasonableness of outstanding and in transit reconciling items.

Due to / Due from Accounts

During our audit procedures, we noted that various due to/due from accounts maintained the same balance for the year with only additions to those balances.

Suggestion: Management should review all due to/due from accounts and appropriately make the cash transfers.

Receipts

The Village uses pre-numbered receipts but these receipts are not pre-printed with the Village's name and address.

Suggestion: We suggest that the Village use pre-numbered three part official receipts with the name of the Village pre-printed on the receipt. This official receipt must be issued for all cash receipts received in person. The receipt must identify the individual receiving the payment.

Disbursements

The Village only requires one signature for all checking accounts.

Suggestion: Uniform Accounting Procedures required by the State of Michigan require that all local units of government use dual signatures for all checking accounts except separate tax collection checking accounts. We suggest that the Village implement this procedure as soon as possible and that the Village treasurer and or clerk be at least one of the required signatures.

GASB 34

The Governmental Accounting Standards Board has approved GASB 34. This is a new financial Statement reporting model. Based upon the Village's revenues, your required implementation deadline will be with the February 28, 2005 financial statements. The purpose of the new model is to make the financial statements of all entities comparable. Nonprofits have already implemented a similar reporting requirement.

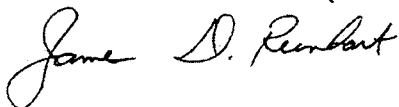
A major issue involved with implementing the new guidelines is that fixed assets are to be reported at historical cost and depreciated over their estimated useful lives. Your general fixed assets have previously been reported at cost and never depreciated.

Suggestion: We suggest that the Village determine who will be responsible for maintaining fixed asset records and develop a timeline for implementation and proper training. The Village also needs to develop policies regarding depreciation methods, useful lives, and capitalization limits.

Our firm appreciates the opportunity to serve the Village of Schoolcraft, Michigan and would like to thank the administration and staff for their cooperation and assistance.

Should you have any questions, please contact our office.

Sincerely,



James D. Reinhart, CPA
Yeo & Yeo, P.C.
CPA's and Business Consultants